

MEXICO

An emerging economic powerhouse

Commercial relationships between the US and Mexico are at an all-time high, with development of the latter's business climate attracting numerous investors

Perhaps unexpectedly, given the media coverage extended to complications with the North American Free Trade Agreement (NAFTA), Mexican and US business relationships have never been better. Trade between the two increased 6.3% in 2017 to \$557 billion, with the US importing \$314 billion in goods from its neighbor — more than from any country other than China.

US companies are investing heavily in what Frédéric García, president of the Executive Board of Global Companies trade association, says could become the world's fifth-biggest exporter by 2030. Investment into Mexico

grew 11.1% in 2017 to nearly \$30 billion and the US represents 46.8% of that figure. "US companies generate two million jobs here and represent 22% of GDP," states Mónica Flores Barragán, president of Mexico's American Chamber of Commerce.

Investors are drawn by the countries' shared history and Mexico's "strategic location, economic stability, top-quality materials, great internal market, significant purchasing power and free trade agreements," explains Ambassador Jesús Mario Chacón Carrillo, head of the Global Business Promotion unit at investment agency ProMéxico. In fact, Mexico boasts

the highest number of trade agreements in the world.

Solving the problem of labor

Another attraction is a skilled workforce that has made it a centre of excellence and innovation. Mexico has become one of the best places for doing business by introducing structural reforms of various industries and in sectors like justice, where it now offers a reliable legal environment. Labor issues, however, are still seen by some as a challenge in the NAFTA negotiations and for investors — but that is set to change.

"Mexico has had an informal economy, which is being attacked

by the structural reforms, although the planned labor reform has yet to be filed," says Federico Anaya Ojeda, managing partner of legal firm Anaya Valdepeña, a practice that has specialized in labor and business law for three decades.


Founded in 1932, the firm has 50 lawyers working throughout Mexico, and offices in New York and Ottawa. "I make it clear to my international clients that Mexico is a very different country. By explaining the detail of the labor law and, for example, the importance of negotiating with unions, I can prevent issues. I forewarn them, because it is my duty to avoid conflicts with their employees."

Tomás Natividad Sánchez is founding partner of Natividad Abogados, a leading Mexican firm which has over 70 lawyers, who specialize in labor law, and international partnerships that allow it to solve conflicts across borders.


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He agrees that parts of the labor system in Mexico are complex and that businesses working in the country need well-qualified local legal advisors.

“Labor lawyers should be professionally up to date, because there will be important legal and regulatory changes soon,” he stresses. Over 37 years, Natividad Abogados has worked with national and international companies on everything from hiring employees to mergers and managing large strikes. “I have witnessed the close and collaborative relationship between the US and Mexico. Many investors continue to feel very confident about investing in Mexico because, for example, it is technically proven in sectors like automotive production,” says Natividad Sánchez.

Wide-ranging opportunities

“Mexico has significant potential in the automotive industry and will soon be talked about as a power in the creation of technological engines,” expands Angel Junquera Sepúlveda, founding partner of Junquera y Forcada, a prominent



Angel Junquera Sepúlveda
Founding Partner, Junquera y Forcada

boutique law firm that offers integrated services and which has had commercial and professional links with the US since its formation 33 years ago.

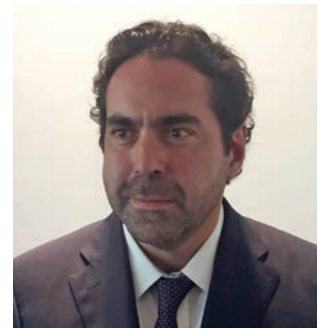
“I see Mexico as an economic powerhouse,” he adds; “It has seen exponential growth because of its wealthy mineral sector, even more than its oil and exchange markets. Its aeronautic sector has also grown and evolved, as has the pharmaceutical industry and tourism. It is obvious that the authorities working in these fields have done a magnificent job.” Junquera y Forcada has also seen exponen-



Tomás Natividad Sánchez
Founding Partner, Natividad Abogados

tial growth and now employs 50 lawyers. However, it will remain a boutique firm, as Junquera Sepúlveda believes that, to remain dynamic and at the forefront of Mexican law, “It is more important for us to grow as people, rather than in numbers.”

He himself is an active member of national and international law associations, such as the International Union of Lawyers and the American Society of International Law, while his staff receive constant training. This approach provides clients with, “A well-trained, bilingual law firm, with great



Federico Anaya Ojeda
Managing Partner, Anaya Valdepeña

international relations, a strong presence, active participation and focused on problem prevention.”

To prevent future problems arising from possible difficulties with NAFTA, Junquera Sepúlveda suggests Mexico should capitalize on its many free trade agreements and a strategic location that enables it to act as a global hub. “I’m not downplaying the importance of our US neighbors — today, we are codependent — but Mexico is a market opportunity and we should continue to try to expand our investment horizons,” he concludes.

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World-class production of pharmaceuticals

International drug companies are accessing a growing Mexican market by partnering with local manufacturers

An indication of Mexico's increasingly modern and diversified economy is the strength of its manufacturing, which grew by over 6% last year. Its pharmaceuticals sector, for example, is one of the most developed in Latin America. What is already the region's second-largest pharmaceuticals market is predicted to increase 5.5% a year to 2020, when its value will be over \$20 billion. "It is a growing market for the pharmaceutical sector," confirms

Juan José Aguirre Salazar, commercial director of Grupo Bruluart, a leading Mexican-owned pharmaceutical company.

"In the last five years, the sector has completely changed," he notes; "It is well regulated and the requirements to produce, market and transport drugs have strengthened. This makes it a market with a higher added value, as it complies with international quality standards." Established 60 years



Juan José Aguirre Salazar
Commercial Director, Grupo Bruluart

ago, Grupo Bruluart has been manufacturing high-quality generic drugs for 15 years, which are still the bulk of its business, although it now also produces pharmaceuticals for international partners.

More recently, it set up "Brudi-Farma, a drugstore distributor, and Bruluaxa, a production plant for antibiotics, analgesics and vitamins. Then, Farmacias GI was born," says Aguirre Salazar. The latter is a highly successful chain of pharmacies that "gives us a competitive advantage, as we get direct feedback from clients," he adds.

This also benefits the international companies that increasingly use the company for manufacturing. "It enables them to reduce costs while maintaining quality. Our facilities are on a par with any in the world, which allows us to create highly complex pharmaceuticals, even biotechnological ones," says Aguirre Salazar.

Having recently expanded its production capacity, the company is focused on supplying Mexico, he says, but: "One goal is exporting to the US. With the difference in production costs between the two countries, the margins we might make are enormous."

Moving to Industry 4.0

Mexico is equipped for the future of manufacturing



Luciano Diorio
Managing Director, Grupo Hi-Tec

"Many assembly plants are arriving in Mexico, companies are automating and robotizing their processes and industry is moving to 4.0," says Luciano Diorio, Managing Director of Grupo Hi-Tec. As Mexico's largest supplier of advanced high-performance computer numerical control machine tools, his company is facilitating this change.

It has been supplying state-of-the-art equipment from leading international brands for 25 years, as well as servicing, engineering, support and training. "We offer machinery for every type of process," states Diorio; "We have over 400 collaborators and operate in more than six countries, including Spain and Germany." 100% focused on client service, Grupo Hi-Tec is the perfect example of a reliable Mexican partner.

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Mexican innovators reach out to the world

A new generation of companies is ready to solve global problems, such as how to stop rivers from overflowing

As a nation of creative people that find solutions to any problem, it is no surprise that Mexico is home to numerous innovative companies. This fact received international recognition in April, when it acted as partner country at Hannover Messe, the world's leading exhibition for cutting-edge technology.

Many of Mexico's new generation of companies target global problems, such as energy genera-

tion, in the case of Petrobal. Limiting climate change's impact is the focus of ArmorTech, a company of civil engineers that has created a system to limit erosion caused by rivers and prevent overflowing.

"The great advantage of our articulated concrete floor is that it acts as a flexible mesh, which adapts to changes in the river and sustains the lateral walls without collapsing," explains Hugo Pinedo

Vargas, CEO of ArmorTech; "Vegetation can emerge through it, and it becomes almost impossible to see concrete."

The technology was first trialed by Mexico's National Commission of Water — and works exactly as promised, with enormous reliability. "We install it ourselves for greater control and offer a guarantee against functional failure, although we have not had any to date," says Pinedo Vargas. Now internationally patented, he believes there is a real need to introduce the potentially life-saving technology to the US and Canada: "We wish



Hugo Pinedo Vargas
CEO, ArmorTech

to be considered before misfortunes happen."

Petrobal on the cusp of crude oil production, making history in Mexico

Founded in 2015, Petrobal is a subsidiary of the Mexican conglomerate Grupo BAL, which has a diverse portfolio of mining, financial and commercial operations and is owned by Mexican business tycoon Alberto Baillères González. Petrobal has found its niche in the exploration and production of hydrocarbons, activities in which the young company continues to go from strength to strength, thanks to its highly able technical team, analytical capacities and excellent management of financial resources.

In September 2015, the company — in consortium with US company Fieldwood Energy — won a production-sharing contract for the delimitation, development and production of the offshore Ichalkil and Pokoch fields in Mexico. CEO Carlos Morales Gil has confirmed that some \$170 million will have been spent on exploration during 2017. A second well is currently being drilled at Area 4, with work on the first having ended a few months ago.



Meanwhile, Petrobal is assessing appropriate methods for marketing the oil that it proves able to extract. The next step will be to reveal its findings and present a production plan to the government. With the approval of the latter, Petrobal together with Fieldwood will be entitled to carry out the commercial production of crude oil which could happen as early as the second half of 2019.

Area 4 was awarded to Petrobal as part of Mexico's second auction of shallow water oil and gas fields under Round One — the country's first-ever international call for bids

for the exploration and extraction of hydrocarbons across various areas and blocks deemed suitable for exploration.

As Mexico's first private oil company to be born in decades, Petrobal entered the scene at a time of historic changes in the country's energy sector, which has opened up to private producers for the first time in decades. In August 2017, the company took a significant step forward in its internationalization strategy by acquiring assets in production in the US. In turn, the event was also the first time ever that Texas authorities is-

sued a drilling permit to a Mexican company for gas and oil extraction in the state.

Petrobal is simultaneously looking at further business opportunities across the oil sector such as in the key areas of transport and storage.



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